

Office of the City Auditor

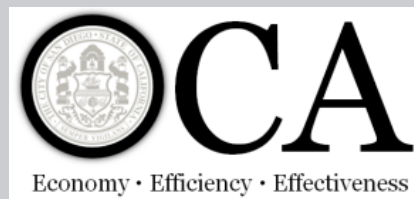
City of San Diego

Audit Committee Meeting

December 7th, 2009

Item # 4

Performance Audit of the City's Treasurer's Delinquent Accounts Program - Development Services Department Deposit Accounts



Introduction

- The audit of the City Treasurer's Delinquent Accounts Program is included in the Fiscal Year 2009 City Auditor Work Plan
- During this review, we found significant weaknesses in the City's billing and Development Services Department's (DSD's) collection practices, which required immediate reporting.
- This audit was not a performance audit of DSD's Deposit Account project management model. We did not evaluate whether or not their model is the most efficient and effective model to use.

Audit Objectives

The main objectives of the Delinquent Account Program audit are to determine if:

- ♦ Opportunities exist to improve the collection of past due amounts owed to the City; and
- ♦ Delinquent accounts are properly recorded in the City's Comprehensive Annual Financial Report.

This first of two reports covers issues related to DSD's billing and collection of fees.

Background

- The City Treasurer's Office manages the Delinquent Accounts Program, which receives past due account referrals from many City departments for collection efforts.
- DSD provides review, permit, inspection, and code enforcement services for building and development projects throughout the City of San Diego.
- Most DSD fees are flat fees; however, for more complex projects the applicant is required to make a deposit.
- The deposit amount depends on the size and type of project and is determined by a fee/deposit schedule.

Background

- Deposit Account projects are tracked individually within the Subdivision Trust Fund.
- An applicant's initial deposit is drawn down, primarily by City staff labor charges.
- Subsequent deposits are required to maintain a minimum positive balance sufficient to cover estimated review costs based on the type of project.
- If subsequent deposits are not made into the Deposit Accounts, these accounts will go into deficit.

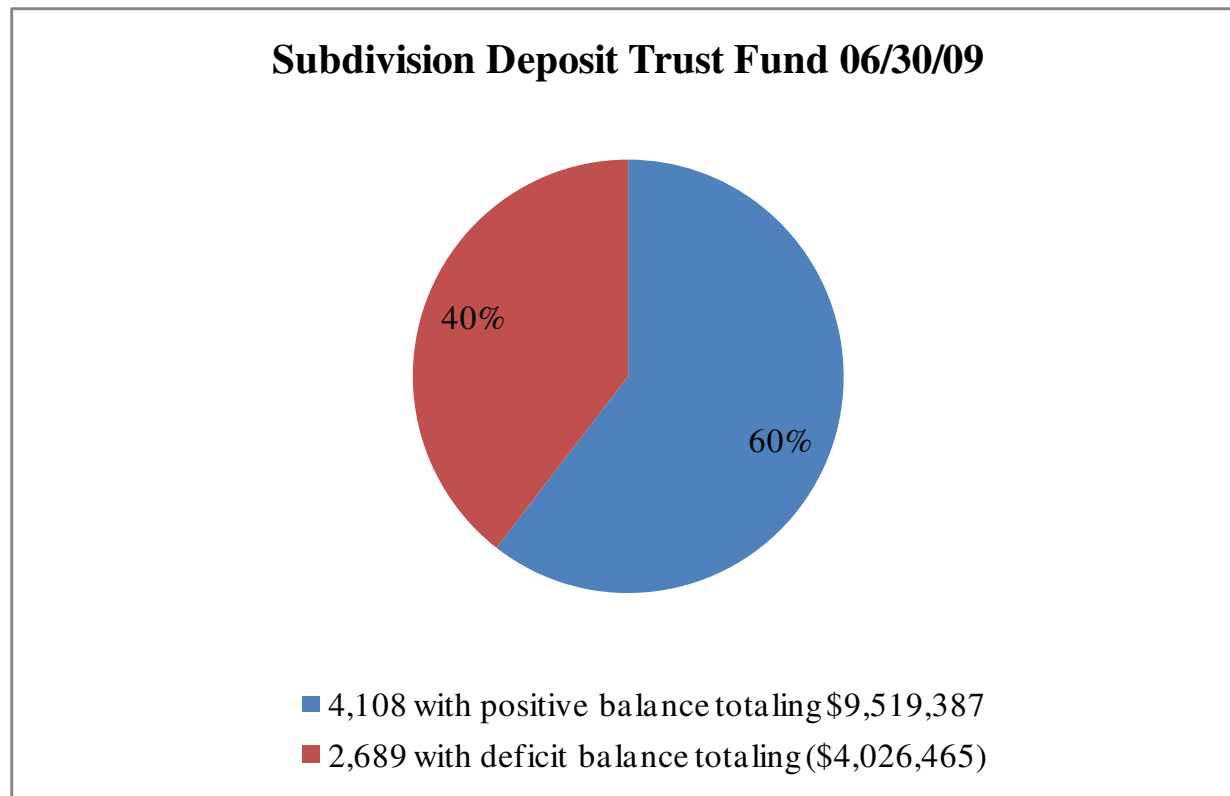
Audit Results

Based on our audit we found:

- DSD relies on an inefficient and ineffective billing and collection process for Deposit Accounts resulting in more than \$3 million of unpaid fees.
- DSD has not referred most of these past due accounts to the Treasurer's Delinquent Accounts Program for collection in a timely manner.

Audit Results

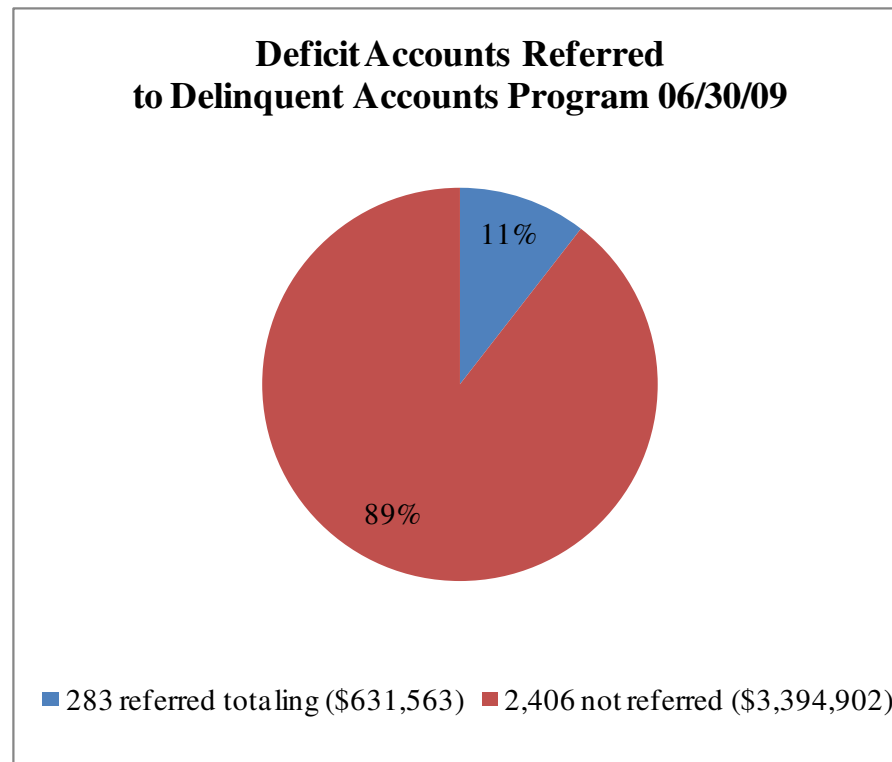
- As of June 30, 2009, 40% (about 2,700) of the Deposit Accounts had a deficit balance totaling over \$4 million.



Source: Comptroller Reports

Audit Results

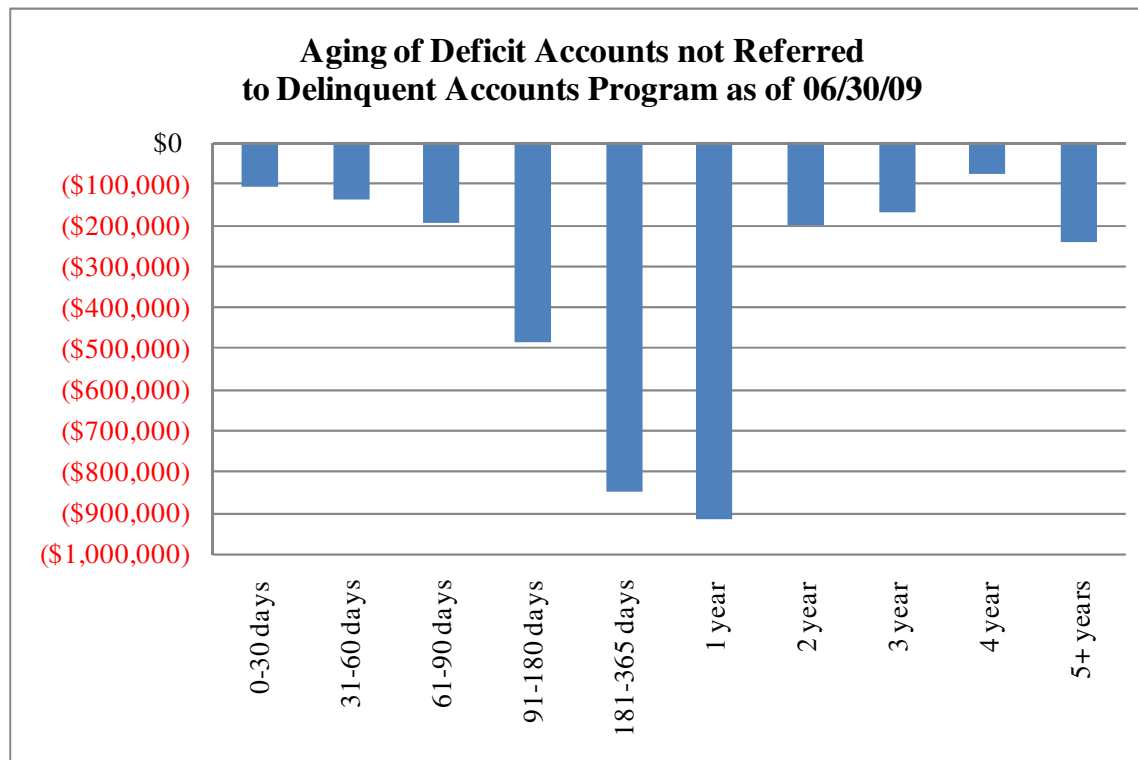
Of those projects in deficit, DSD has referred 11% to the Treasurer's Delinquent Accounts Program.



Source: Comptroller Reports

Audit Results

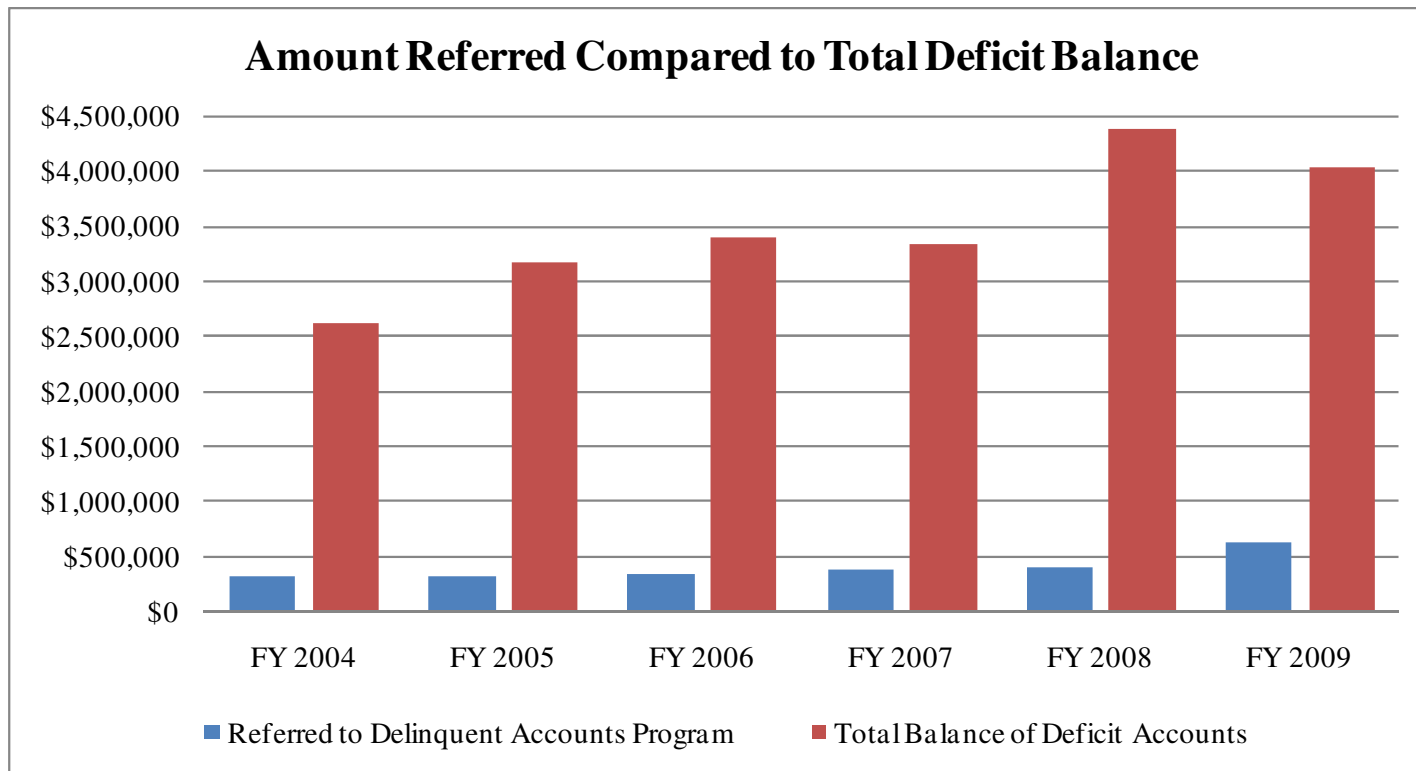
Some deficit accounts not referred to the Delinquent Accounts Program were only between 30 to 60 days past due, but \$3.1 million were over 60 days old.



Source: Comptroller Reports

Audit Results

Between FY 2004 and 2009, total deficit accounts averaged \$3.5 million and increased from \$2.6 million in FY 2004 to \$4.4 million in FY 2008.



Source: Comptroller Reports

Audit Results

Factors that Contributed to the Deficit Account Problem

- Applicants with existing deficit accounts are allowed to take out additional permits.
- A decentralized manual billing and collection process.
 - ♦ Individual Development Project Managers are responsible for pursuing payment on their deficit accounts.
 - ♦ Following up on deficit accounts is a time consuming process.
 - ♦ DSD's Project Tracking System (PTS) does not interface with the City's accounting system and PTS invoices do not create accounts receivables in the City's accounting system.
 - ♦ City employees are allowed to continue charging staff time to projects with deficits.
 - ♦ Accurate Deposit Account balances are cumbersome to obtain.

Audit Recommendations

- We made a total of 14 recommendations to address the issue of deficit deposit accounts. City Management agreed with all 14 recommendations.

Conclusion

- All audit reports and our contact information are available through the City Auditor's web site at:
<http://www.sandiego.gov/auditor>
- Q & A